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ON THE FINANCIAL DEVELOPMENT OF JAPAN

1. DYNASTIC CHANGES AND THE SHIFTING OF FINANCIAL POWER

Many changes have occurred in the political and social organisations from the days when a society based on the *shizoku* (clan) system prevailed up to the present days of a capitalistic society. When one period shifts to another period, there is always a big political event, which causes a change of dynasty. The change of dynasty is of much greater significance than historians usually ascribe to it. It does not simply mean, as historians would have us believe, the overthrow of the powers that be by some great men. It is hardly necessary to say that the general trend of social affairs is constantly and gradually changing. From the point of view of the history of finance, it is an important problem to study how the centre of financial power has shifted. The great influence which the Soga family wielded in ancient times, for instance, was presumably due, in large measure, to its control of the financial power of the country through its supervision over the *imikura* (齋藏), the *uchikura* (内藏) and the *ōkura* (大藏). In the Taikwa Reform which followed the ruin of the society based on the clan system, statute labour was abolished in favour of the new system of collecting taxes called *so*, *yo* and *cho* (租庸調), under which system stable sources of revenue were ensured to put an end to the muddled financial state of the former period. This illustrates the importance attached to financial power in those days. In the Heian period, many *shoen* (莊園 manors) came into existence. The *shoen* was virtually free from taxation or from intervention of provincial lords; it enjoyed a sort of

extraterritoriality. So, many people sought to evade the exactions of Government offices by utilising this privilege. The result was that the Government was denuded of its source of revenue and its coffer became depleted, as the number of *shoen* increased rapidly. In the closing days of the Heian period, the State administration, to say nothing of the local administration, was rendered difficult, and the provincial disturbances gradually spread to the capital. It was only with the help of the warriors that the Fujiwara family was able to suppress these disturbances. In the meantime, the number of *shoen* owned by warriors in various districts went on increasing, so much so that it was said that the manors owned by the members of the Taira family exceeded 500, or about one half of the whole land of Japan fell into their possession. This naturally caused a big decrease in the amount of the tributes to the State with the resulting distress of the State finance. It was, indeed, in the natural order of things that with the gradual loss of financial power, political power gradually passed into the hands of the military caste. On the establishment of the Shogunate at Kamakura by Yoritomo Minamoto, he replaced the *shoji* (荘司) and *jito* (地頭) (local magistrates) belonging to the Taira family by his own retainers. Further, on the pretext of facilitating the arrest of Yukiie Minamoto and Yoshitsune Minamoto, he appointed *shugo* (守護) to each province, and more *jito* to many places. By levying five *sho* (升) of rice on every *tan* (段) of land, he took over the control of land as well as the right of collecting taxes. It was due to the acquisition of financial power through the control of land and taxation, which constituted the most important source of revenue in those days, that the Kamakura Shogunate was established on a firm basis. The financial difficulty of the Muromachi period was the natural outcome of the decentralised feudalism, while the somewhat improved finance in the Oda and Toyotomi periods was due to a better unification of the country, and, more especially, to the control of a stable source of revenue from land. Again, the rise of the Tokugawa Shogunate is attributable to its

possession of financial power far superior to that of many feudal lords, while its downfall was due to the fact that the financial basis of the Shogunate was shaken as land economy was supplanted by currency economy and also that it proved incapable of controlling the economic power of the rising (*chonin* 町人) class, these factors combining to reduce the Shogunate to financial straits. The establishment of the Meiji Government was rendered possible because it got control of land in the whole country by replacing clans by prefectures and possessed itself of economic power of the *chonin* class. Thus viewed, it will be understood that it is impossible for dynastic changes to take place, in disregard of financial power or independently of economic power.

2. FROM KINSHIP FINANCE AND LOCAL FINANCE TO STATE FINANCE

We often talk of "Japanese finance," but there were very few cases, from remote old days up to the modern age, where finance covered the whole land of Japan. In the days of the *shizoku* (氏族 clan) system, the revenue from the Imperial land was the principal resource for meeting the expenses of the Imperial Household and the Central Government. People voluntarily paid tributes to the Imperial Court, and of the land tax, statute labour service and tributes collected from private domains, the tributes generally went into the coffers of the Imperial Court, but no taxation was imposed on the people generally. In those days, the Emperor held sway over the Imperial family and the *uji-no-kami* (氏上 heads of *uji*) of other families only, no direct ownership being held by him over the land and people of the country.* Accordingly, the so-called Japanese finance operated in the limited areas over which the Emperor held direct control. After the Taikwa Reform, it appeared that the prefectural system was

* See my essay "A short history of social problems in Japan before the Restoration" in this Review Vol. III, No. 2, p. 42 et. seq.

introduced and enforced throughout the country, but soon afterwards, the *handen* (班田) system (under which the Government supplied farm lands to citizens at intervals of six years) ceased to operate, and there was a revival of aristocracy, many *shoen* being created everywhere. In the middle and latter days of the Heian period, the authority of the Central Government gradually waned, while the local magnates steadily gained influence. The result was that besides the Government fiefs and *shoen* belonging to influential families, there sprang up *shoen* of military families. Kyoto (the Imperial Court) was, in such circumstances, reduced to a position of isolation. In the military regime of the Middle Ages, the Kamakura and Muromachi Shogunates were the financial centres, and they appeared to have extended their right of taxation to the whole country through the collection of rice as military provisions and other imposts, and yet only the fiefs under the direct control of the Shogunate remained the main source of revenue. As the influence of the Muromachi Shogunate declined, the number of fiefs owned by military leaders which refused to obey the Shogunate orders steadily increased. The lords of these fiefs collected taxes from the people in their fiefs, but refused to forward them to the Central Government. Such being the case, the Muromachi Shogunate, though nominally in control of the country, was, as a matter of fact, as powerless as an isolated provincial lord, and its finance was by no means on such a scale as merited the name of national finance. In the Tokugawa Shogunate also, the *tenryo* (天領) or the fiefs under the direct control of the Shogunate formed the chief source of revenue, and needless to say there were some feudal lords who owned extensive areas. In short, until recent times, the finance of our country did not cover the whole country; it was limited to the areas over which the rulers held direct sway. Although national finance in name, it was the finance of some particular influential families or the Shogunate, to all intents and purposes. It was after the Meiji Restoration that a national finance worthy of the name came into ex-

istence. Viewed from this standpoint, it may fairly be said that Japan's finance has had the three stages of kinship finance, local finance and State finance.

3. FROM SECRETARIAT FINANCE TO STATE FINANCE

As already stated, the finance of our country was formerly the finance of those in power. It was governed by the principles of private economy, and offered no distinction from household finance. In the reign of the Emperor Richu, it was divided into *imikura* and *uchikura*, and in the reign of the Emperor Yuryaku another department called *ōkura* was created. There is no doubt that this marked a good step forward in politics and finance, but it is open to grave doubt whether a clear line of demarcation was drawn between the private expense of the Imperial Household and the State expenditure in respect of revenue, control and defrayals, or whether what the Emperor did as the head of the Imperial Family was clearly differentiated from what he did as the Ruler of the country. As for myself, I am inclined to the view that the establishment of the three *kura*, namely *imikura*, *uchikura* and *ōkura*, merely shows that there was a big expansion of finance in those days. The Taihoryo marked another advance in that it provided an Imperial Household Department for the transaction of Court business, in addition to the People's Department and the Finance Department. It is nevertheless very doubtful whether it meant, in substance, the transition from secretariat finance to State finance. Even in the military age, State finance was confounded with household finance. In the Tokugawa Shogunate, the principle of cutting the coat according to the cloth formed the nucleus of the financial policy, and the items of expenditure of the Shogunate clearly show that the distinction was considerably blurred between the expenditure of the Shogunate proper and the family expenditure of the Tokugawas. In short, the finance of this country in former days, from the remote old

days downwards, was handled as though it had been private economy, without regard to one important point of difference existing between finance and private economy. In the State finance, the expenditure necessary for the execution of the State administration is first fixed and then the ways and means of finding the requisite money are studied, though the capacity of the people for bearing burdens may claim due consideration. In the State finance, therefore, the revenue is regulated by the amount of expenditure. On the contrary, in household finance the expenditure must be fixed within the limits of revenue. It was not until this financial principle was recognised after the Restoration that the finance of this country was dissociated from household finance.

4. FROM FINANCE IN KIND TO FINANCE IN CURRENCY

The present-day finance consists in the receipts and payments of currency or monetary expedients by the State. In the days when currency economy was undeveloped, however, it was usual for tributes to be paid in kind or labour (*corvée*) was pressed into service. In the days of remote antiquity, the land tax was paid in sheaves of rice plants at the rate of three sheaves for every 100 *shiro* (代) of land (one *shiro* covering an area of land which produced one sheaf of rice plants). *Mitsugi* (調) consisted of catches and games, cloth, yarn and other products of various districts. For the construction of palaces or for other engineering works, men were recruited from many places, distant as well as neighbouring, as, for instance, recruiting was made of men in Shinano province in the reign of the Empress Buretsu and in the reign of the Empress Kokyoku, men were recruited from Omi and Koshi provinces for the construction of big temples. There were also cases where men were pressed into service for the building of Imperial Palaces from the districts located between Totomi in the east and Aki province in the west. It seems that for ordinary *buyaku* (夫役 statute

labour), apart from temporary *buyaku*, the men recruited for annual service were at the rate of one per 30 households, as a general rule, in the pre-Taikwa days. The Taihoryo also provided for the land tax, *chishi* (地子 rent in rice plants) and *buyaku*. *Cho* and *yo* embodied tributes to be paid to the capital between the middle of August and the end of the year, according to the distances which separate the provinces from the capital. The men for carrying these tributes to the capital were to be provided by the families from which they were collected. In those days when very little communication facilities were available, the transport of these taxes from distant places involved burdens heavier than the main tax, viz. the land tax. Many of the young men who were chosen for the task of transporting *yo* and *cho* starved to death on the mountains and fields or succumbed to diseases contracted on the way. In order to meet such a situation, relief regulations were enacted, under which these people were supplied with food for their return journey. In the case of those who came up to the capital from distant provinces, it often happened that they could not return home in time for the rice planting season. These were serious inconveniences attending natural economy, and they caused many hardships to the people, though such a system was inevitable in the days when the currency system was undeveloped. In the Nara and Heian periods, coins were minted, as, indeed, we come across references to *yosen* (徭錢 tax payments in coins) in many books published in the Tempyo era and afterwards. In an Imperial Edict issued on February 28th of the 16th year of Enryaku (797) appears the passage: "The taxes are intended for providing against floods and drought. People cannot live on coins when they are starving. We hear that many officials in the capital collect coins in taxes, but this practice must be done away with, as it ignores the fundamentals of the tax collection. There are, however, poor people, and these do not necessarily keep cereals, and from these people coins may be collected, but the coins collected should not exceed one-fourth of the total amount

of taxes." From this Imperial Edict, it may be inferred that the payment of taxes in coins was a device for the protection of poor people. But seeing that this practice of paying taxes in coins was subsequently often prohibited, it seems that with the increased circulation of currency, there developed a tendency to pay taxes in coins in the districts around the Central Government. In the Engishiki also, mention is made of the *cho-yo-sen* (調庸錢). At first, the Government conferred Court rank on the keepers of coins as one means of encouraging the circulation of coins, or made travellers carry coins. It also caused people to pay *cho* and *yo* in coins. The amount of coins minted was not, however, large enough to be put into circulation throughout the country. Many coins were kept stored instead of being circulated in the market. There were also cases where coins were privately minted, a circumstance which impaired the credit of currency. Inasmuch as the general economic state was not so advanced as to necessitate the wide use of metal coins in those days, natural economy was prevalent, though coins were in circulation in the limited areas of the provinces around the capital and some other districts. In the Kamakura and Muromachi days, the land tax was paid either in cereals or in coins, and besides the land tax, there were such taxes as the *tansen* (段錢 tax levied on farm land), *munebetsusen* (棟別錢 house tax), *kurayaku* (倉役 pawnbroking tax) and *utokusen* (有徳錢 contributions collected from rich families), with the result that tax receipts in coins gradually increased. Especially in the Muromachi period, large quantities of *eiraku* coins (永樂錢) were imported from China, and there was a larger circulation of coins, resulting in more widespread payments of taxes in coins. In the Tokugawa age, coins got into circulation throughout the country, and they became more extensively the medium for national finance. Owing to the fact that whereas rice still formed the basis of finance and economics, state defrayals and receipts were made with coins at the same time, an anomaly arose, with serious effects on the finance of the Tokugawa Shogunate. In and after 1875 (8th

year of Meiji), economy in kind was abolished, and finance has been unified by currency value, while service in labour such as *buyaku* ceased to be financial revenue. This marks another advance in the financial history of the country.

5. DIVERSIFICATION OF SOURCES OF REVENUE

In the ancient days when land economy ruled in this country, land was regarded as the sole source of revenue, and consequently taxation was levied on land, on farm land especially. At first, there was no classification of land, the tax being assessed according to the acreage of land. For instance, in the days of remote antiquity, three sheaves of rice plants were collected from farm land covering an area of 100 *shiro*. Both in the Taihoryo and under the system operating in the Heian period, a tax was collected at the rate of about 3 per cent. of the standard yield of rice per *tan* of farm land, irrespective of the quality of land. With regard to *chishi*, however, farm land was graded according to the degree of its fertility, and from the land of good quality ten sheaves of rice plants per *tan* were collected, from the land of medium quality eight sheaves, from the land of bad quality six sheaves, from that of the worst quality three sheaves. On the whole, the levy was one-fifth of the yield of rice. In the Kamakura and Muromachi periods, the rates of taxation varied, and the rates levied differed with the quality of the land. In the Tokugawa period also, different rates were imposed on different classes of land. It was since the Meiji era that assessment of the tax was based on the value of land. As already explained, taxes were imposed on manufactures of various kinds, besides land, but land remained the main source of revenue all the same. In the days when it became difficult to get sufficient revenue from the land tax, attempts were made to find new sources of revenue in all other directions. What with the very complex relations of rule over feudal territory and what with civil disturbances, it was difficult, in the

Muromachi period, to expect a large revenue from the land tax, and new imposts were created such as *tansen*, *munebetsusen*, *kwanzei* (customs duties), *zayaku* (座役 tax on trade associations), *kurayaku*, *utokusen*, *bukeyaku* (武家役 tax on samurai) and *hyakushoyaku* (百姓役 tax on farmers). In the Tokugawa period too, it was found impossible, owing to the impoverishment of the farming population, to rely solely on the productive power of land, and a big source of revenue was sought from among the commercial and industrial classes which had come by degrees to possess much influence. Taking advantage of the spread of currency also, the Tokugawa Shogunate managed to increase its revenue considerably by making use of the privilege of coinage. There are phenomena which are bound to happen in the period of transition from agricultural economy to commercial economy and from land economy to currency economy.

6. FROM CREDIT FINANCE TO DEBT FINANCE

In the *Ocho* (Imperial rule) period, besides taxes (in a narrow sense of the word), *shiko* (出舉) supplied an important source of revenue, while in the Tokugawa period, *goyokin* (御用金) formed a good source of revenue. These two things make an interesting contrast with each other. *Suiko* was a system, according to which *ine* (稻 seed-rice), official and private, was lent to farmers in spring time, and farmers were made to pay it back with interest after the harvest time of autumn. According to the Imperial Rescript issued in April of the 4th year of the accession of the Emperor Tembu (675), farmers were divided into three classes according to their wealth, and to the farmers of the middle and lower classes *ine* was lent. This system was thus originally intended for the relief of poor farmers, but later it was exploited for realising profits to meet the expenditure of the Government offices, so that even rich farmers had to receive *ine* and pay interest on it. The term of the loan was fixed at one year and the rate of interest at 50 per cent. As *ine* was lent

out in spring and recovered in autumn or winter, the term was not, strictly speaking, one year. Supposing that eight months were the exact term, the interest it actually bore was 75 per cent. The profits accruing from *suiko* were by their nature designed for meeting the expenses on the making of ponds and channels, and the construction of temples (*kokubun-ji* 國分寺), but as a matter of fact they were, in many cases, employed for meeting the expenditure of the Government offices. So, they went to the profit for the *kokushi* (國司 provincial magistrates), and the evil practice was originated by the *kokushi* of lending out *ine* over and above the stipulated amount in order to realise big gains. In those days, of the levies of *so*, *yo* and *cho*, the lastmentioned two were utilised to pay the expenses of the Central Government, while only a small part of the *so* rice was sent to the capital, and the most part of the rice was kept in local storehouses to meet local expenditure. A large quantity of the rice was used as *suiko* to make profit out of it. The amount of rice lent out as *suiko* was fixed according to the size and wealth of the provinces concerned, but there is no documentary record available to ascertain accurate figures. In the *Engishiki* (延喜式) rules, the amount of *suiko* is shown, according to which the total amount is given as 42,976,584 sheaves and 1,200 *koku*. These figures do not, of course, represent the total amount of local expenditure in a year, but they may be taken as indicating the basic figures of local finance. In short, the *suiko* system played an important part in local finance. In the closing days of the Heian period, however, *shoen* became numerous and the number of vagrants (*ronin* 浪人) increased in all districts. These evaded their obligations to pay debts and obstructed the transaction of official business. Government officials also were bent on making profits by lending out large quantities of *ine* as *suiko* to feather their own nests. This state of things vitiated the State administration and caused hardships to the people. With the gradual deterioration of official discipline, the *suiko* system seems to have gone out of ex-

istence, for no record of its subsequent history is obtainable.

In the Ashikaga period, there were already privileged merchants and industrialists on whom special taxes were imposed. In the Tokugawa period, the *goyokin* system was inaugurated, under which some merchants were ordered to pay monetary contributions to the Shogunate. With these contributions, any deficit in the Shogunate finance was often made up. Unlike taxes, *goyokin* was of a nature not to be collected compulsorily by the Shogunate as its proper right. It was by nature a debt contracted by the Shogunate to a merchant from which it was raised, with a promise to pay it back with interest. From this point of view, *goyokin* was not a contribution. The idea of *goyokin* was alien to the policy pursued by the Shogunate in its initial days. As its finance became difficult in the middle and latter part of the Shogunate, the system was inaugurated to tide over the financial difficulty, for the burdens on farmers were already so heavy that it was impossible to increase them further to raise the requisite money, while, on the other hand, the commercial class grew more and more wealthy with practically no burdens imposed on them.

Under the *suiko* system, the State lent *ine* to people and exacted interest on it, but under the *goyokin* system, the State constituted itself the debtor to those on whom *goyokin* was imposed, pledging itself to pay interest on it. This developed in the Meiji period into the so-called loan system. That the State passed from the position of creditor to that of debtor, and that the right of creditors to the State, which was not sufficiently secured in former days, became clearly defined, afford materials of considerable interest to the study of the history of the origin of public loans and their developments. It certainly is not impertinent, therefore, to dwell here upon the transition from credit finance to debt finance in the above-mentioned sense.

7. PERFECTION OF THE SYSTEM

The system and regulations governing taxation have become gradually more elaborate. In the *Ocho* period, thanks to the importation of various systems from China, which was then ahead of Japan in civilisation, many reforms were effected, and some comparatively detailed regulations were laid down, but in the military age that followed, the regulations were rather simplified as a result of a general regard for simplicity. With respect to the system of imposition and payments of taxes, a fairly perfect system was in operation already from the *Ocho* period. It is, however, after the Meiji era that a most perfect system and most elaborate regulations were introduced.

Although it was in the Meiji era that all systems relating to budgets, settlement of accounts and finance were put into perfect order, the days anterior to Meiji were by no means devoid of systems governing these matters. There were some rules by which revenue and expenditure were regulated. Even in household finance, it is necessary to know in advance the possible incomes, and if so, it is obvious that such a necessity is much greater in the finance of the State. As far back as the *Ocho* period, therefore, there was a system governing matters relating to budgets and settlement of accounts. The *Daikeicho* (大計帳) in those days gave the aggregates of the revenue from *yo* and *cho* to be collected every year, as well as the number of the households in each province under the jurisdiction of *kokushi* (provincial magistrate) throughout the country, and the number of tax-paying and non-tax-paying households. In other words, it embodied the estimates of revenue accruing to the Central Government from the provinces. Against this, there was the book called *Cho-cho* (調帳) which recorded the actual number of *cho*, *yo* and other tax matters. There was another book showing the settlement of accounts called the *Shozeicho* (正税帳). In this book was entered the amount of the cereals paid by

people in taxation and the defrayals made in the previous year. In the Tokugawa period, "The Outlines of the Amount of Expenditure in a Year" was made public in December of the third year of Kwanyen (1750). In the days subsequent to the fifth year of Horeki (1755) also, estimates in regard to part of the expenditure were drawn up. The organ for the control of finance called the *kanjo gimmiyaku* (勘定吟味役) was also created (from 1682 to 1699 and after 1712), though it differed somewhat in nature from the one which is in existence at present. Taken as a whole, however, the finance in the post-Restoration days was not a continuation of the finance of the pre-Restoration days; there were marked changes in nature. This was because the State finance, in the true sense of the term, was not in existence in this country before the Restoration. It is hardly necessary to say that the system and regulations relating to finance were brought to perfection after the Restoration. This development of finance, which is inseparably associated with the changes that came over the political and social organisations in post-Restoration days, was in part due to the introduction of Western civilisation and partly to the progress of financial science.

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